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Central Intelligence Agency



Washington D.C. 20505

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Yugoslavia: Impact of Party Revival on Economic PolicySUMMARY

Renewed assertiveness by the Yugoslav Communist Party threatens to make the government's adherence to its long-term economic stabilization program more difficult. While the party leadership has supported some key economic bills proposed by the government, it has advanced other measures that conflict with government and IMF efforts to promote greater economic efficiency. Recent statements suggest that disagreement between the party and government over these latter measures is likely to continue and even sharpen. [redacted]

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### Renewed Party Assertiveness

Yugoslavia's Communist Party is showing signs of recovering some of the authority and influence that it lost in the five years since Tito's death. Top party bodies have been meeting more often in recent months, have added staff to their executive arm, and have called for tighter discipline over the power regional party bodies. [REDACTED]

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The party leadership seems determined to play a more influential role in economic policy. A sign of this switch came in late September, when the Party Central Committee broke with its normally noninterventionist approach to the Federal Assembly by issuing unusually pointed directions to regional delegates to adopt a controversial foreign exchange law. Top party leaders have also demanded that laws governing the banking system and business losses due to exchange rate changes be approved by the end of the year. The Embassy in October reported it has rarely seen top Yugoslav officials so fired up. The military, a critic of party leadership inaction a year ago, in recent months has muted its complaints. [REDACTED]

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The new party assertiveness seems prompted by a loose coalition spearheaded by Serbia, the country's largest republic, and including the economically hard-pressed southern republics--though some ideologically orthodox northern officials welcome a more active party role. The coalition may be strong enough to force at least an incremental shift toward more central party influence over policy, probably by selectively exploiting party statute provisions allowing for majority rule, instead of the unanimity used in many government bodies. Even so, the party would remain among the most diverse and open in the Communist world, prone to the venting of conflicts among competing regional and ethnic interests. [REDACTED]

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### Two-Edged Sword

While some of the party leadership's recent actions support policies backed by the government and the IMF, others suggest that policy conflicts may be brewing. On the one hand, the party has placed itself behind the government in its stand on the foreign exchange bill and other bills before the Assembly. It has also recently lined up with those favoring greater reliance on market forces by reaffirming support for private businesses and quietly shelving a scheme, put forth by some party officials last summer, for a centrally-mandated wage policy. [REDACTED]

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At the same time, party leaders have increasingly implied that key provisions of the economic stabilization program, the centerpiece of the government's economic policy, should be watered down to ease the painful effects on the population. The long-term program was adopted by both the government and the party in 1983 at the IMF's urging to help the country overcome

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its foreign debt crisis. Major roles were assigned to exchange rate policies, positive real interest rates, liberalization of prices, and tighter financial discipline. The reservations of Yugoslav party leaders about government economic policies seem to be prompted by several factors:

- Image-Bolstering: Many party leadership statements appear to be political posturing, intended to shore up the party's lackluster image in the eyes of workers, pensioners, and the unemployed, many of them hit hard by the austerity program.
- Concern for Public Discontent: Like leaders of other debtor countries implementing IMF stabilization programs, Yugoslav officials are concerned to prevent outbreaks of public discontent. So far Yugoslavs have shown remarkable forbearance, but the number of strikes is up this year and the precise limits of public tolerance are unclear.
- Ideological Conviction: Although ideology has lost much of its role as a motivating force among Yugoslav politicians, many still believe that party, government, and workers' bodies should play a key role in economic decisionmaking. Some fear many moves that would turn the economic system further towards a Western-style market economy.
- Maintaining Power: The power of many leaders owes in part to their ability to control the handing out of economic favors. Planks of the stabilization program calling for increased financial justification of investments could endanger "pork barrel" projects and weaken the influence of officials at all levels.
- Economic Rationale: Yugoslav economists are divided as to the best solutions to the country's serious economic problems. Embassy reporting indicates that the party has set up its own in-house team of economists, the views of which sometimes clash with those of government economists.

#### Party Oppositional Statements

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While taking more initiative on economic policy, party officials thus far have not come forth with a coherent, all-embracing package of proposals. Many of their ideas appear aimed at goading the government into action and seem to have been floated as trial balloons. Some of the more controversial proposals suggested by the Presidium have died in the Central Committee. Nonetheless, even the environment created by airing these proposals--made by top party bodies and not just individual leaders--could constrain government economic decisionmaking and

ultimately impair relations with Western creditors. Following are some of the more striking proposals.

- Lower Interest Rates: The party Presidium's report to a plenum in late October took issue with a key element of the government's current agreement with the IMF when it criticized uniform application of real interest rates on domestic loans. Current rates are theoretically pegged to the rate of inflation, now running at more than 80 percent. Some party leaders earlier this year reiterated public complaints that rates were strangling the economic recovery. Indeed, interest rates were reduced in October with apparent IMF agreement. Yet the party president in November said the government should "immediately" lower them further. Moreover, a deputy premier recently told the US Ambassador the government will try to win IMF agreement to change domestic interest rate policies, again in apparent response to party pressures.
- Defending the Dinar: Some party leaders have expressed unease with the government's steady devaluation of the dinar, a measure required by the IMF to promote export competitiveness and more efficient resource allocation. The party president, concerned that the policy promotes inflation and weakens the average Yugoslav's buying power, recently demanded that the rate of exchange not be allowed to deteriorate further.
- Rein on Market Forces: The party Presidium in October warned of economic policies that deny the state a role in economic planning and place faith only in the "haphazard and spontaneous" effects of market forces. While party officials in some republics strongly support the use of more market forces to increase efficiency and rationality, US diplomats report that senior officials in some other republics continue to distrust them.
- Price Controls: According to Embassy reporting, the director of the Federal Institute for Prices stated that partial price controls enacted recently were partly in response to pressures to demonstrate the government's willingness and ability to control inflation. The price controls apparently go against the spirit but not the letter of IMF price liberalization policies and send mixed signals to the domestic economy. While the pricing official specifically cited political pressures within the Assembly and government, party officials frequently have called for concrete government action to lower the inflation rate.

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### Outlook

The party leadership seems determined to regain at least some of its waning influence, authority, and reputation in advance of next June's party congress, and economic policy will be one area on which it is likely to focus. While it faces obstacles to asserting its influence in the form of independent-minded regional party groups and governmental bodies, it may succeed in shaving some of the harder edges off the government's austerity program. [REDACTED]

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The government probably is pleased to win strong central party backing for legislation in the face of sometimes stubborn regional pressures in the Assembly. Yet it increasingly will have to make compromises and fight a rear-guard action to defend itself against party criticisms. Its efforts may be encumbered when the current premier, Milka Planinc, ends her nonrenewable term next May. The new premier may lack either her clout or convictions. [REDACTED]

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Nonetheless, a major shift in regime economic policy seems unlikely. The majority of senior party figures seem committed at least to the outlines of the stabilization program. Most are probably aware that a radical shift in policy would be construed by the IMF and Western creditors as "backsliding" on Yugoslavia's commitment to economic reform, endangering future financial assistance. Thus, for the foreseeable future, Belgrade will probably continue to walk an economic tightrope, trying to reduce some of the country's worst economic inefficiency while at the same time dampening public discontent by protecting at least some workers and unprofitable firms. [REDACTED]

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